

Message Text

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PAGE 01 ISLAMA 05983 100854Z
ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
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/056 W

-----101153Z 015365 /50

R 100750Z JUN 77
FM AMEMBASSY ISLAMABAD
TO SECSTATE WASHDC 2191
INFO AMCONSUL KARACHI
AMCONSUL LAHORE
AMEMBASSY NEW DELHI

LIMITED OFFICIAL USE ISLAMABAD 5983

E.O. 11652: N/A
TAGS: EFIN, PK
SUBJ: STATE BANK INCREASES INTEREST RATES

1. THE STATE BANK OF PAKISTAN ANNOUNCED JUNE 8TH THAT IT IS
REVISING UPWARD THE LENDING, BORROWING AND DEPOSIT RATES FOR
PAKISTAN'S COMMERCIAL BANKS. THE BANK RATE, WHICH SERVES
AS THE BASIS FOR THE COMMERCIAL BANKS' INTEREST RATE STRUCTURE
IS BEING RAISED FROM 9 TO 10 PERCENT. A CORRESPONDING INCREASE
OF ONE PERCENTAGE POINT WILL ALSO MOVE UPWARD BANK LENDING RATES,
WHICH WILL NOW STAND AT 11-14 PERCENT. INTEREST RATES PAID ON
DEPOSITS
IN BANKS HAVE ALSO BEEN INCREASED BY 1/2 TO ONE PERCENTAGE
POINT. ACCORDING TO THE NEW SCHEDULE, THE INTEREST RATE ON
7-29 DAY TIME DEPOSITS WILL INCREASE FROM 5 TO 5 1/2 PERCENT,
AND AT THE OTHER END OF THE SCALE, THE INTEREST PAYABLE ON
DEPOSITS WILL BE INCREASED FROM 11 3/4 TO 12 3/4 PER
CENT. THE NEW RATES WILL APPLY TO DEPOSITS MADE OR
RENEWED AFTER JUNE 7TH.

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PAGE 02 ISLAMA 05983 100854Z

2. THERE ARE A NUMBER OF MISCELLANEOUS EXCEPTIONS TO THE
INCREASE IN INTEREST RATES, BUT TAKEN ALL TOGETHER, THEY
WILL NOT OFFSET THE OVERALL IMPACT OF THE INCREASE.
NOTABLE AMONG THE EXCEPTIONS ARE STATE BANK'S SCHEME FOR
FINANCING LOCAL SALE OF LOCALLY MANUFACTURED MACHINERY,
AND A VARIETY OF RURAL CREDIT SCHEMES. INTEREST RATES
ON MANY OF THESE TYPES OF TRANSACTIONS WILL BE BELOW THE

BANK RATE.

3. COMMENT: AS THE DEPARTMENT IS WELL AWARE, THE IMF, THE WORLD BANK AND THE AID CONSORTIUM HAVE LONG BEEN PRESSING PAKISTAN TO INCREASE ITS INTEREST RATE STRUCTURE. THIS IS A SMALL STEP IN THAT DIRECTION, WELL SHORT OF THE INCREASE IN THE INFLATION RATE OVER THE PAST FEW MONTHS. (THE CPI HAS ALREADY INCREASED BY OVER 1 PERCENT IN BOTH JANUARY AND FEBRUARY.) WITH INFLATION NOW BETWEEN 12 AND 15 PERCENT A YEAR, MOST NOMINAL BANK INTEREST RATES, WHETHER PAID BY THE BANKS OR TO THEM ARE STILL NEGATIVE. THIS HALF-HEARTED INCREASE WILL THEREFORE PROBABLY NOT HAVE A SIGNIFICANT IMPACT ON PAKISTAN'S DRIVE TO INCREASE SAVINGS.

4. THE PRESS REACTION THUS FAR SUGGESTS THAT THE BUSINESS COMMUNITY WILL BE UNENTHUSIASTIC ABOUT THE MEASURE. WE WILL BE REPORTING IN GREATER DETAIL ON THE IMPACT OF THIS MEASURE ON THE INVESTMENT CLIMATE AFTER CONSENSUS KARACHI AND LAHORE HAVE HAD A CHANCE TO TEST BUSINESS REACTION TO THE NEW INTEREST RATES, AS WELL AS TO THE BUDGET TO BE ANNOUNCED JUNE 11.

CONSTABLE

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